

Mexico Flash

No change in fondeo rate with a less hawkish tone

- **The recent decrease of inflation, as expected by Banxico; the lack of evidence of second round effects on prices** and the absence of new shocks **weaken the upward risks in the short term**. Even it is mentioned that it is probable that inflation will be below 4% at the end of the year.
- **Banxico** keeps the link between its stance and the downward trend in inflation, although there is no mention about the proximity of a rate adjustment.
- The balance of risks of domestic activity deteriorates marginally in the short term as a result of the US fiscal cliff.
- We maintain our perspective of a protracted monetary pause in a scenario of inflation reduction below 4% during the first half of 2013 and a 3.0% GDP growth. However, if inflation risks develop a preventive rate hike cannot be dismissed.

Chart 1

Principal messages in monetary policy statements

	October 26	November 30	Assessment*
Global context	<ul style="list-style-type: none"> • Risk balance for global growth deteriorates further • Highlights: i) Uncertainty about the size of the fiscal adjustment in the US; and ii) Contraction in economic activity in the euro zone 	<ul style="list-style-type: none"> • Downward risks for global growth remain • Highlights: i) The possibility of a fiscal adjustment in the US is already affecting its private investment. 	The pessimistic tone in global output remains, focused on the US
Economic Activity	<ul style="list-style-type: none"> • Risk balance for growth continued to deteriorate, as reflected by the increased downward risks for the global economy, and in particular for the US. 	<ul style="list-style-type: none"> • Risk balance for growth deteriorates marginally in the short term, as reflected by the increased downward risks for the global economy, and in particular for the US. 	Downward risks increase
Inflation	<ul style="list-style-type: none"> • If the downward changes in the headline and core inflation trends are not confirmed an upward adjustment will have to be made <u>soon</u> to the reference rate. • The upward risks have increased in the short term. In the medium term pressures have reduced. 	<ul style="list-style-type: none"> • If the downward changes in the headline and core inflation trends are not confirmed, an upward adjustment will have to be made to the reference rate. • The upward risks in the short term have reduced marginally. 	Fall in inflation in line with expectations suggests a reduction of short term risks
Policy decision	0.00	0.00	Less hawkish tone
Policy rate	4.50	4.50	

* Interpretation by BBVA Research of Banxico's opinion in accordance with the latest monetary policy statement.

Source: BBVA Research and Banxico

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